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PORTLAND
City Club
BULLETIN

CRYSTAL ROOM, BENSON HOTEL
FRIDAY, 12:10 P. M.

Portland, Oregon—Vol. 23, No. 40, Feb. 12, 1943

INDUSTRY IN THE WAR and AFTER

By DR. ALLEN A. STOCKDALE, New York City
Dean, Speakers Bureau, National Association of Manufacturers

Ranked as one of the most dynamic and well-informed speakers on industry today, Dr. Stockdale has made more than one thousand addresses for the National Association of Manufacturers in the past five years.

Dr. Stockdale was born in Zanesville, Ohio, in 1875. After receiving an A.B. degree from Taylor University, he did postgraduate work in philosophy and sociology at other American universities, and at Oxford, in England.

Since 1904 Dr. Stockdale has held Congregational pastorates in Boston, Chicago, Toledo, and Washington, D.C. He interrupted his ministry during the First World War to serve as Captain in Red Cross field work in France.

A man of widely varied interests, Dr. Stockdale is the author of many well-known bits of poetry, and while in Boston was known as "the pitching parson" because of his interest in baseball.

Incidentally, within two weeks the City Club will have heard a former Methodist pastor turned C.I.O. official, and a Congregational pastor speaking for the National Association of Manufacturers. This ought to prove something, but it probably doesn't.

☆ ☆ ☆

ALSO

CLARENCE D. PHILLIPS . . . Committee Chairman
"Administration of State Taxes in Oregon"

A report of the Taxation and Public Finance Section published in this issue

PORTLAND CITY CLUB BULLETIN

Published each Friday by the
CITY CLUB OF PORTLAND

"To inform its members and the community in public matters and to arouse in them a realization of the obligations of citizenship."

Howard E. Kessler, Editor

**City Club Office - 516 Oregon Building
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The regular Friday luncheon meetings are held in the Crystal Room of the Benson Hotel.

Vol. 23

February 12, 1943

No. 40

NEW MEMBERS TO BE INTRODUCED

FREDERICK GREENWOOD

Manager, Bank of California

Proposed by H. A. Templeton

ROBERT S. MILLER

Attorney, McCamant, King, and Wood

Proposed by W. M. Patterson

DR. JAMES MILLAR

Executive Secretary
Presbyterian Board of Education

Proposed by Dr. Raymond B. Walker
and Dr. Paul S. Wright

C. GIRARD DAVIDSON

General Counsel
Bonneville Power Administration

Proposed by Frank W. Paris and
D. L. Marlett

☆ ☆ ☆

ATTENDANCE LAST FRIDAY: 210

LET'S GROW!

MEMBERSHIP NOW.....561

ONE YEAR AGO.....482

GOAL—MAY 1.....600

BRING A NEW MEMBER!

PROPOSED FOR MEMBERSHIP AND APPROVED BY THE BOARD OF GOVERNORS

If no objections are received by the Executive Secretary prior to February 26, 1943, the following applicants will be elected:

V. A. MORLEY, Operating Supervisor
Associated Oil Company
Proposed by Frank W. Paris

FRANK J. CROWLEY, Business Manager
Columbia School District No. 33
Proposed by Dr. James T. Hamilton

LESLIE ALFRED GRITTEN
District Manager
West Coast Telephone Company
Proposed by Major E. J. R. Rossiter

EMORY R. WORTH, State Director
United States Employment Service
Proposed by John W. Campbell

ROBERT A. LEEDY, Attorney
Leedy and Keane
Proposed by John W. Campbell

GEORGE A. KNUTSEN
Agency Organizer
The Mutual Life Insurance Co. of N.Y.
Proposed by John W. Campbell

WILLIAM J. ROBERT, Attorney
Proposed by Walter A. Durham Jr.
and Thomas H. Tongue

OSCAR FURUSET, Attorney
Proposed by W. P. Briggs

ALEX P. OLSEN, Assistant Manager
Terminal Ice and Cold Storage Co.
Proposed by L. W. Pennington

D. E. BEARD, Special Agent
The London Assurance
Proposed by W. O. Hall

IRVING HAUSMAN, Rabbi
Temple Beth Israel
Proposed by I. E. Hervin

JOHN M. WHITELAW, Executive Officer
Portland Community Chest
On Loan to Civilian Defense Council
Proposed by H. A. Templeton

ATTENDANCE LAST FRIDAY: 210

To Win the War We Must Win the Peace

(Brief of Chancellor Frederick M. Hunter's significant address
before the City Club January 8, 1943)

In his message to Congress December 1, 1862, Abraham Lincoln uttered an immortal prophecy, as applicable to our day as to his: "We shall nobly save or meanly lose the last best hope of earth."

Victory must be made to mean the enhancement and fullest possible realization of those unique essentials of our American way of life which we have thus far measurably but imperfectly attained. This implies that the code of the jungle, of Adolf Hitler and his associates, must not in any acknowledged degree prevail. Should there be a negotiated peace and should a vestige of political or military power remain to the dictatorships, threat of loss of our system of life would be real and imminent. To realize victory, the planning of a peace becomes vital now. To fail to plan thus is to adopt the fatal errors of *laissez-faire*. We would thus also open the way for the deceptions of the Goebbels propaganda.

The course of action leading to victory also points to a triumphant peace. Such a peace implies the consummation of the crusade upon which we as Americans have embarked: that we shall preserve our way of life; that it shall not be supplanted by the bestial slave-driven system of Hitlerism; that, in a word, the "last best hope of earth" shall be nobly saved. Our military effort, unprecedented in the history of the world, is supported by an equally hitherto unimaginable series of undertakings on the home front. These have already revolutionized many vital phases of everyday living. Such of these changes as coercive centralization and regimentation, unwarranted except in extreme emergency and danger, must and will disappear as we begin to make real the fruits of victory, but those practices which the war has shown to be valuable and vital to the fulfillment of the purposes of our way of living should, through wise statesmanship and informed opinion, be retained for our service in the post-war period.

To make real the victory over the axis powers, four indispensable policies must dominate post-war America. The first of these is capacity operation of America's matchless mechanism of production under a system of private enterprise. The purposes of such capacity operation are obvious. Another era of tragic unemployment must be prevented. Also, ample goods and services to provide for all people of the nation an American standard of living must be insured.

The war has unmistakably disclosed our productive capacity. At the peak of 1929 the research findings of the Brookings Institution showed that our productive efforts reached 85 per cent of capacity, with a national income of some 90 billion dollars. During the first year of active war-participation, 1942, this capacity mounted to an income of almost 120 billion dollars in goods and services, showing our previous production peak to be only some 60 per cent of capacity. Thus, by means easily within the power of the American people, unemployment upon any significant scale may be prevented and a level of living insured consistent with America's ideals of democracy.

Essential to such capacity operation are certain principles which must be widely recognized as controlling factors of all public policy. In my opinion these are: (a) A wide-spread revival of adequate incentives to private enterprise and individual initiative. (b) The use of governmental agencies to prevent monopoly and abuses by "blocs," such as employers' associations, labor organizations, patent-holding cartels, and others. (c) A policy of spreading profits by low-priced mass production resulting in both an increase of free markets and a lowering of production costs thereby (as per the findings of the Brookings Institution in "Income and Economic Progress" and the practice of such establishments as the Ford Company). (d) A schedule of production for peace comparable to the goals of war-time, using the results of scientific research for the stimulation and encouragement of such new industries as:

Synthetic rubber enterprises producing one million and one hundred thousand tons annually.

A 20 billion dollar housing program based on new uses of our timber resources and plastics.

A remodeled auto industry formulated on new scientific discoveries, the use of plastics, etc.

An airplane industry using gyroscope types for individual and family use.

A revived railroad program, making use of aluminum construction, diesel power, and other modern scientific implements.

A communication system requiring mass production of "walkie-talkie" radios and television instruments.

A broadly-planned public works system for emergency use.

That a production system operating to capacity or relatively near capacity based on such a program would achieve the purposes suggested above, there can be little doubt.

The second of the requirements for a realization of victory is the complete use of the nation's educational establishment of both plant and personnel. The people of America have an investment of billions of dollars in the multifarious units of an educational system usually locally controlled but spread throughout the nation. Some two-and-a-half billions are spent annually in its operation. The staff consists of more than one million specifically, and to a large degree, highly-trained teachers, administrators, technologists, professors and research scholars. At the elementary and secondary levels there are 31 million students, with some one-and-a-half million more in the colleges, universities and technical schools. The purpose of a complete use of this democratic mechanism is to provide now and throughout the years an intelligent national understanding of the problems such a democracy as ours must face both at home and abroad, with some conception of possible solutions of these problems essential to the preservation of our democratic way of life and the realization of its aims; and, further, to encourage a pervading

patriotism, with the general welfare and public good as its purpose rather than merely individual success; and finally, an expert and prepared leadership in the professional and technical fields as well as in the ranks of political policy-making and statesmanship.

The revelations of the war have shown vast contributions on the part of this educational establishment in the preparation of skilled workers, technologists and specialists, with a view to providing the 630 skilled technical workers of each 1,000 selectees as required by the armed services. Three million skilled workers have been thus provided by the educational facilities of the country; physicians, dentists, pharmacists, production managers, engineers, in hundreds of thousands have been forthcoming. Educational staffs have enthusiastically participated in registration for rationing, war bond sales, scrap drives, and the like. These revelations have also brought to light serious failures and deficiencies among which may be listed the small ratio of college and university enrollment in comparison with the youth of college age. Under the pressure requirements of October, 1941, and in view of the critical shortage of experts and technologists the enrollment was shown to be 838,000 in 669 recognized colleges and universities, or less than 10 per cent of the total college-age students available for such enroll-

ment. Moreover, even in some of our most progressive states barely 50 per cent of the ablest 10 per cent of the high school graduates were able to attend college and university, because of financial handicaps.

The third essential dominant policy is the acceptance of responsibility for participation in the international policies of the world by the people of the United States. Three instrumentalities should be undertaken for this purpose:

- (a) The extension of the present war council of the United Nations for the maintenance of order, with a world police authority and enforcement system.
- (b) A council to formulate and guide the political relations of the United Nations.
- (c) A plan of zoning of the nations for world trade on the basis of geographical and economic considerations, as a result of the victory about to be achieved.

The fourth essential is a wide public support of an organized movement with a patriotic as opposed to a self-interest goal. Our government at present is shaped by pressure blocs, such as the Farm Bloc, the Big Business Bloc, the Labor Bloc, the Unilities Bloc, etc. A bloc with public interest at heart, under the guidance of such an instrumentality as a new American Legion, with a wholly patriotic purpose, is essential to a full fruition of victory.

Administration of Taxes in Oregon

A Report of the Taxation and Public Finance Section

To the Board of Governors of the City Club:

It is evident to the members of this committee that the subject assigned to it cannot adequately be covered in one report. We are pleased, however, to present the following information and suggestions, with the full realization that the subject has not been exhaustively considered.

The committee has approached the problems of tax administration in Oregon by giving attention to the following major subdivisions of taxation:

1. Ad Valorem Taxes.
2. Income and Excise Taxes.
3. Inheritance and Gift Taxes.
4. Gasoline Taxes.
5. Unemployment Compensation and Social Security Taxes.
6. Licenses.

1. Ad Valorem Taxes

At the present time the ad valorem taxes, particularly in their assessment, are very much in a state of uncertainty in Oregon. The question of assessment has become the center of some controversy at the 1943 legislative session.

In view of the political differences upon this subject, the committee does not feel that it would be wise for the City Club to make any definite recommendation at this time upon the method of assessment of property for purposes of taxation, unless a committee be appointed to give consideration to this particular problem.

The committee does feel, however, that if a definite form of assessment is adopted with a uniform ratio of assessment, that there should be

also adopted a definite formula for determining the assessed value, which should be either the market value or the present depreciated value, or some other definite formula. At the present time some assessments are made on the basis of market value, and some are made on the basis of reproduction cost less depreciation, and some are made on the basis of original cost, less depreciation. In the opinion of the committee, market value as determined by competent appraisers is ordinarily the soundest formula, for the reason that fluctuations in value are more often reflected in the community as a whole, or at least in large segments of the community. Under any theory of assessment upon original cost or reproduction cost, less depreciation, the value of any particular piece of property at the time of the assessment may be grossly out of line with that of property in the same vicinity by reason of differences in construction costs at the time of the original construction, or at the time of the assessment.

Some confusion has arisen from the changes made by the Legislature of 1941 providing that taxes on personal property shall be a lien as of January 1st of the year of the assessment, and taxes on real property shall be a lien from the first day of July of the year in which the taxes are levied. The committee recognizes, however, that it is important that the lien on personal property shall attach immediately as of the date of the assessment in order to assure prompt collection against any property which may be moved without the state.

Likewise, some confusion and hardship has resulted by reason of the change in the fiscal year and the payment dates for taxes, with

particular reference to deductions made on income tax returns by corporations keeping their records on an accrual basis. This hardship, however, would only exist for the first two years if the Legislature made no further changes.

The committee finds that in many states some efficiency and economy has resulted from the consolidation of the office of Assessor and Tax Collector. In Oregon, it has been traditional for the Sheriff to be the Tax Collector. However, under this system it has been virtually necessary for the Assessor and Sheriff to keep duplicate records. We can see some possible advantage in having a consolidation of the offices of Assessor and Tax Collector, but believe that this subject should receive further study by a committee appointed for that purposes.

Under our political system, the Assessor is elected, and there is no assurance of tenure of office for a longer period than four years. The office of County Assessor, however, now more or less requires the services of an expert in appraisal of properties and organization of detail, but the salaries paid in Oregon ordinarily are not sufficient to attract the services of an expert in this field. We believe that consideration also should be given to the matter of adequate compensation to such an officer, and possibly a longer term of office with the safeguard of providing for removal from office for cause. The Assessor's office in Multnomah County makes approximately 17,000 assessments on personal property alone. One of the difficulties under which this office operates at the present time is a shortage of personnel. If a committee is appointed to give further study to ad valorem taxes, it could give consideration to any possible remedies for this personnel problem.

The Tax Supervision and Conservation Commission at present appears to be only an advisory body. It has no authority to curtail budgets made up by the officials of tax levying bodies. It appears to this committee that the Tax Supervision and Conservation Commission should either be given adequate authority to actually supervise budget making and taxation, or should be dispensed with.

2. Income and Excise Taxes

In general, the administration of these taxes has been well handled by the State Tax Commission, but there appear to be a few difficulties which the committee is not quite certain can be eliminated by legislative changes within the state.

A major problem is that of avoiding multiplicity of taxation upon individuals and corporations who do business in states other than Oregon. Generally, the entire earned income of individuals who claim residence in Oregon is taxed in Oregon, even though a substantial portion of their business or income may be earned in other states. At the present time we have examples of that in members of the armed forces, and in shipyard workers. Members of the armed forces who receive their income in other states, either while in training or in actual combat, are required to make tax returns in Oregon and pay the tax if they still consider Oregon as their residence. As to the armed forces, a comity may develop among the states. We feel that the income tax in this state should be limited to the income that is earned in Oregon.

With respect to corporations doing business in several states, they must necessarily be considered under two subdivisions:

1. Oregon corporations qualified to do business in other states.
2. Corporations organized in other states, which do business in Oregon as foreign corporations. The Tax Commission has used its best efforts in determining the apportionment of income for the computation of excise tax on these corporations. Generally, the factors used are:
 - a. The proportion of the real and personal property used in the business in Oregon as to the total value of real and personal property within and without the state.
 - b. The proportion of the wages, salaries and compensation paid to employees in connection with business in Oregon as to the similar items in connection with the business carried on both within and without the state.
 - c. The proportion of gross sales or charges for services performed within the state as to the gross sales or charges for services performed both within and without the state.

Some controversy has arisen over this subject, and in some other states other formulas of allocation have been adopted. It would be very helpful in this problem if a uniform comity could be worked out among all the states, but this could not be done except with the ultimate adoption of some uniform tax law which would be agreeable and acceptable to all states, and that would be almost impossible of consummation. It would be feasible, however, for those states which are close geographically, and it would not be impossible for the Pacific Coast states to collaborate upon a uniform formula of allocation of income in view of the fact that there are so many corporations who have their business enterprises up and down the Pacific Coast.

Another weakness in the administration of taxes in Oregon is the procedure for adjustment and final disposition of tax disputes. At the present time deficiency assessments may be made by the Tax Commission and conferences may be held in an effort to dispose of the matter, and hearings may be had before the Tax Commission. After that, the taxpayer, if he is dissatisfied is required to go into the Circuit Court, which ordinarily requires the services of an attorney and the usual costs and formalities which attend Circuit Court Cases. This committee feels that some provision should be made for appeal of smaller tax matters to the inferior courts. If they are small enough, they could be handled by the Justice Courts or the District Courts the same as small claims. As an alternative, it may be advisable to consider a special court for the handling of tax matters, which court could go about the state from place to place for the purpose of hearing any tax controversies that may be appealed from the ruling of the State Tax Commission. The procedure for appeals in such a tribunal should be relatively simple, and should make provision for taxpayers to take their own tax appeals in smaller cases without the necessity of legal counsel if they desire to prosecute their own cases.

3. Inheritance and Gift Taxes

The estate taxes and gift taxes are handled by the office of the State Treasurer and not by the State Tax Commission. An inheritance tax law was first enacted in 1903 in Oregon. At that time there was no income tax in this state and no tax commission. When gift taxes were enacted they were also placed under the administration of the State Treasurer. The State Treasurer has handled the administration of these taxes in a very efficient manner. However, in those estates or trusts by gift where income taxes are also involved, we find two administrative organizations of the state dealing with substantially the same property and income insofar as checking and auditing are concerned and the giving of final receipts and clearances necessary for the closing of estates. It appears to this committee that the administration of the inheritance and gift taxes should be consolidated with the administration of the income taxes, either having them placed under the present State Tax Commission, or any other Commission which may be set up for the administration of taxes. This would simplify the tax administration and be of much assistance to executors and administrators of estates, as well as to trustees where gift taxes may be involved.

This committee also feels that optional appraisal dates should be provided for estates. At the present time, the valuations for inheritance taxes are determined as of the date of the death of the deceased. Some estates require considerable time for probate, and it is often found in a period of declining values that estates are required to pay inheritance taxes on a valuation as of the date of the death, which is not commensurate with the values one year later at approximately the time of distribution. An optional appraisal date would permit these taxes to be computed at a time nearer to the date of distribution if so desired. This would also be consistent with the general theory that the inheritance tax in Oregon is a tax on the right to receive, as distinguished from a tax on the right to transmit.

With respect to the gift taxes, we understand it is not the purpose of this committee to give attention to tax rates, but only to problems of administration. However, it is obvious that the gift tax rates in Oregon are far in excess of gift tax rates in neighboring states, and far in excess of Oregon inheritance tax rates. There should be no great disparity between inheritance taxes and gift taxes, for the reason that gift taxes are supplementary to inheritance taxes, in order to prevent the transmission of estates prior to death in order to avoid taxation.

4. Gasoline Taxes

This committee has no suggestions for improvements in the administration of gasoline taxes. From time to time attempts have been made to use portions of the gasoline tax for purposes other than the construction and maintenance of highways, but this committee feels that all such attempts should be discouraged.

5. Unemployment Compensation and Social Security Taxes

The administration of these taxes is more or less dictated by the federal government. Fundamentally, this is a deplorable situation. The

state has the duty of administering these taxes and making the payments of unemployment compensation, but is required to follow the dictates of the federal government with respect to their administration. We do not feel that the state should be required to surrender its sovereign rights with respect to these taxes, but any remedy for this situation would probably have to come from the United States Congress.

6. Licenses

In Oregon there are forty-one boards or commissions which issue licenses of various kinds. In the state reports for the biennium ending December 31, 1940, we find that the total fees collected for these licenses amounted to more than \$8,000,000. The total disbursements by these boards and commissions amounted to less than half of the amount collected.

In many of these boards and commissions, the fees are handled directly by the board or commission, and they make payment of their own expenses, and issue their own checks. This committee feels that all collections made by boards or commissions in the state should be transmitted through the state treasurer's office. It might also be advisable to give consideration to a special department to handle the issuance of licenses.

CONCLUSIONS:

This committee is unable to embody adequately in one report, all of the necessary details of tax administration in this state. We suggest that separate committees be formed for the study of the separate taxes referred to above.

In addition, we recommend:

1. That a uniform system of assessment be established and adhered to.
2. That assessors be chosen for longer terms of office, with provisions for removal for cause, at salaries commensurate with the importance of the office.
3. That the commission having administration of the corporation excise tax give attention to uniform allocation of income as to corporations doing business both in Oregon and in other states.
4. That a quasi-judicial body be formed to hear tax disputes, with simple procedure for appeal and determination thereof, or that provision be made for hearing smaller tax cases by inferior courts of the state.
5. That the administration of income, corporation excise, estate, and gift taxes be consolidated in the same administrative body.
6. That a special committee give further study to the advisability of forming a department of licenses in Oregon.

Respectfully submitted,

Asa B. Cutler

Burton M. Smith

Clarence D. Phillips, Chairman

(W. P. Donnelly and Ray W. Preston, though they have resigned from the Club, participated in the earlier deliberations of the committee.)

Approved for submission to the Board of Governors by Carey Martin, chairman of Taxation and Public Finance Section.

Approved by the Board of Governors February 8, 1943 and ordered submitted to membership for action.